

Message Text

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PAGE 01 PARIS 22365 01 OF 03 202018Z

70

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 H-03 L-03 DODE-00 PA-04 USIA-15 PRS-01 FEA-02

AGR-20 SWF-02 DRC-01 /193 W
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R 201954Z SEP 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 2532

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

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AMCONSUL NICE

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UNCLAS SECTION 01 OF 03 PARIS 22365

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 21210, SEPTEMBER 9, 1974

1. SUMMARY. ON EVE OF 1975 BUDGET PRESENTATION
PRIME MINISTER CHIRAC CONCEDED FOR FIRST TIME FRENCH
EMPLOYMENT SITUATION (ADMITTEDLY BRIGHTER THAN
ELSEWHERE) MAY HAVE TO TAKE SOME KNOCKS FOR SAKE OF
ANTI-INFLATION PROGRAM. MEANWHILE CAMPAIGN TO PUT
BRAKES ON PRICES MAY HAVE HIT CONSUMPTION ACCELERATOR
INSTEAD, WITH CERTAIN RETAIL PRICES UP 200 PERCENT
OVER YEAR-EARLIER LEVELS. GOF MOVING TOWARD MORE
STRINGENT SOLUTIONS TO ENERGY DEFICITS, WHILE AUGUST
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PAGE 02 PARIS 22365 01 OF 03 202018Z

FIGURES REINFORCE TREND TOWARD AVERAGE MONTHLY TRADE

DEFICITS OF 2 BILLION FRANCS. END SUMMARY.

2. CHIRAC TAKES HARD LINE ON EMPLOYMENT -

FRANCE'S PRIMARY OBJECTIVE IN ECONOMIC FIELD, ACCORDING TO PRIME MINISTER CHIRAC, IS BATTLE AGAINST PRICE INFLATION -- EVEN IF LEVEL OF EMPLOYMENT SHOULD BE A CASUALTY. IN A RADIO INTERVIEW SEPTEMBER 19 AND BEFORE A PRESS GATHERING THE SAME DAY, CHIRAC SAID FRENCH EMPLOYMENT PICTURE WAS LESS SOMBER THAN ELSEWHERE IN INDUSTRIALIZED WORLD, ADDING THAT POSSIBLE EMPLOYMENT EFFECTS OF CURRENT ANTI-INFLATIONARY POLICIES WOULD NOT SUFFICE TO DIVERT GOF ANTI-INFLATION PROGRAM.

CHIRAC'S HARD-LINE STAND FOLLOWED TWO PRIVATE-SECTOR STUDIES WHICH DISCOUNTED RISKS, STRONGLY VOICED BY UNIONS, OF SERIOUS EMPLOYMENT SLUMP THIS AUTUMN. BANQUE DE PARIS ET DES PAYS-BAS ESTIMATES OVERALL WEAKENING OF ACTIVITY IMPROBABLE, GIVEN VOLUME OF BUSINESS IN CAPITAL-GOODS SECTOR, DESPITE DEEPENING CRISIS IN AUTO INDUSTRY. FRENCH PATRONAT (ROUGHLY EQUIVALENT TO NAM) LIKEWISE REPORTS CAPITAL GOODS MANUFACTURERS STRAINING TO MEET INFLUX OF FOREIGN ORDERS, AND HAS REITERATED THAT CAPACITY SHORTAGES IN CERTAIN SECTORS CONSTITUTE ONE OF PRINCIPAL BRAKES ON ECONOMY - A COMMENT GENERALLY ASSOCIATED WITH BOOM CONDITIONS.

CHIRAC ALSO SAID FRANCE WOULD HAVE TO ADJUST TO SLOWER GROWTH IN A PERIOD OF GLOBAL SCARCITIES AND SAID "NEITHER GASOLINE (RATION) COUPONS NOR HIGHER FUEL PRICES CAN BE RULED OUT" IN ATTACK ON GENERAL WASTEFULNESS IN ECONOMY.

3. CONSUMPTION SURGES IN SEPTEMBER -

THE CONSUMPTION "BOOM", BASED ON PRECAUTIONARY BUYING, WHICH HAD MODERATED SOMEWHAT BEFORE AUGUST HOLIDAYS, APPEARS ON UPSURGE AGAIN DESPITE (PERHAPS BECAUSE OF) GOF ANTI-INFLATION PROGRAM. "OPERATION UNCLASSIFIED

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PAGE 03 PARIS 22365 01 OF 03 202018Z

BRAKE ON PRICES", LAUNCHED EARLIER THIS MONTH TO CUT PRICES ON SELECTED CONSUMER GOODS AND BREAK INFLATIONARY PSYCHOLOGY, HAS BEEN FOLLOWED BY 25 PERCENT INCREASE IN SALES BY LARGE RETAILERS (30 PERCENT BY DEPARTMENT STORES AND UP TO 60 PERCENT FOR CERTAIN OF THEM OVER PAST WEEKEND). SALES OF "BACK-TO-SCHOOL" ITEMS AND CLOTHING RUNNING 70 TO 200 PERCENT ABOVE SEPTEMBER 1973 LEVELS. RETAILERS CLAIM PURCHASES OF CONSUMER

DURABLES, THOUGH NOT YET INCLUDED IN PRICE-REDUCTION PROGRAM, ARE BEING SPURRED BY FEARS OF FUTURE SLUMP (ALTHOUGH PROMOTION CAMPAIGNS BY MAJOR OUTLETS UNDOUBTEDLY PLAYING A PART). OTHER RECENT PHENOMENA, SUCH AS SUGAR SCARE IN PARIS MARKETS (DESPITE HUGE FRENCH SURPLUSES) AND A FLURRY OVER BAKERIES REDUCING THE WEIGHT OF THE "BAGUETTE" (THE CLASSIC FRENCH BREAD) POINT TO CONSUMING PUBLIC THAT IS DECIDEDLY EDGY. THUS WHILE FINANCE MINISTER FOURCADE INTENDED "OPERATION BRAKE ON PRICES" TO BE A TRANQUILIZER FOR USUALLY

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PAGE 01 PARIS 22365 02 OF 03 202109Z

70

ACTION EUR-25

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UNCLAS SECTION 02 OF 03 PARIS 22365

FEVERISH "RENTREE" (RETURN FROM HOLIDAYS) PERIOD, IT NOW APPEARS EFFECT HAS BEEN TO INCITE RATHER THAN AVERT INFLATIONARY ACTIVITY ON PART OF CONSUMERS.

4. TRADE DEFICIT NARROWS IN AUGUST -

FRANCE'S TRADE DEFICIT MODERATED SOMEWHAT IN AUGUST, DOWN TO 2.1 BILLION FRANCS FROM 3.01 BILLION FRANC DEFICIT IN JULY. SEASONALLY ADJUSTED EXPORTS ROSE TO 90.1 PERCENT OF IMPORTS, A MORE "NORMAL" RATE OF COVER COMPARED TO 86.4 PERCENT PRECEDING MONTH. TOTAL DEFICIT YEAR TO DATE IS NOW 13.9 BILLION FRANCS.

MONTHLY TRADE (SEASONALLY ADJUSTED,FOB-FOB)
IN BILLIONS OF FRANCS
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PAGE 02 PARIS 22365 02 OF 03 202109Z

- . MAR. AR. MAY JUN. JUL. AUG.

IMPORTS 19.0 20.3 21.8 20.3 22.1 21.4

EXPORTS 17.7 18.3 18.7 19.9 19.1 19.3

BALANCE -1.4 -1.9 -3.1 -0.4 -3.0 -2.1

AUGUST FIGURES SHOWED IMPORTS (ASIDE FROM ENERGY PRODUCTS) HAD PEAKED WITH STEADILY RISING EXPORTS, ACCORDING TO SECRETARY OF STATE FOR FOREIGN TRADE NORBERT SEGARD. SINCE FIRST OF THE YEAR, SEGARD SAID, FRENCH TRADE DEFICITS AVERAGING ABOUT 2 BILLION FRANCS PER MONTH DUE TO HIGHER PETROLEUM PRICES; HE SAID TRADE BALANCE OUTSIDE ENERGY SECTOR IN SURPLUS, BUT FRENCH DEFICIT ON ENERGY PRODUCTS RUNNING ON ORDER OF 40 BILLION FRANCS ANNUALLY. (NOTE FOURCADE STATEMENT PARA7 BELOW ASSUMES ANNUAL ENERGY DEFICIT OF 45 BILLION FRANCS.)

SEGARD ALSO GAVE STANDARD PEP TALK TO EXPORTERS, NOTING ONLY 5,000 OF 600,000 FIRMS IN FRANCE CONTRIBUTED TO SALESABROAD. ON MORE PROVOCATIVE NOTE HE GAVE BARELY VEILED "BUY FRENCH" SPEECH, SAYING HE HOPED "EVERY FRENCH CONSUMER, IN HIS BUYING HABITS, CONSIDERS RECTIFICATION OF OUR TRADE BALANCE A NATIONAL PRIORITY."

5. PRIMARY IMPORT BILL LOWER IN AUGUST -

DECLINE IN PRICES FOR FRENCH IMPORTS OF PRIMARY PRODUCTS CONTINUED IN AUGUST. OVERALL INSEE (NATIONAL STATISTICS INSTITUTE) INDEX (1968100) DROPPED TO 202.3 FROM 206.3 IN JULY, 223.4 IN JUNE AND 240.1 IN MAY. INDEX WAS AT 203.9 IN AUGUST 1973. PRICES OF

PRIMARY PRODUCTS FOR INDUSTRY DECLINED FROM 188.5 TO 181.9 JULY TO AUGUST (190.8 IN AUGUST 1973); SHARPEST DROP WAS IN TEXTILE MATERIALS, DOWN TO 182.3 FROM 197.7 IN JULY. PRICE INDEX FOR PRIMARY FOODSTUFFS REGISTERED SLIGHT RISE FROM 237.2 IN JULY TO 237.6
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PAGE 03 PARIS 22365 02 OF 03 202109Z

IN AUGUST (226.6 IN AUGUST 1973).

6. MONEY SUPPLY UP 5 PERCENT -

OVERALL MONEY SUPPLY (UNADJUSTED) EXPANDED BY 5.0 PERCENT DURING FIRST HALF OF 1974 TO 596 BILLION FRANCS ON JUNE 30 ACCORDING TO FIRST MONTHLY STATISTICS ISSUED BY NATIONAL CREDIT COUNCIL SINCE FEBRUARY (HIATUS DUE TO BANK STRIKES). SEASONALLY ADJUSTED RATE OF INCREASE WAS 6.6 PERCENT FOR FIRST HALF OF YEAR AND 16 PERCENT FOR 12 MONTHS TO END-JUNE 1974. (COMPARED WITH 15 PERCENT FOR CALENDAR YEAR 1973.) BANK CREDITS TO FIRMS AND INDIVIDUALS ROSE 7.5 PERCENT JANUARY-JUNE AND 21 PERCENT FROM JUNE 1973.

MONEY-SUPPLY GROWTH OVER 12 MONTHS WAS SMALLER THAN GROWTH RATE OF THE ECONOMY IN TERMS OF VALUE OVER THE SAME PERIOD. GOVERNMENT NOW CLAIMS OFFICIAL CEILING FOR ANNUAL RATE OF CREDIT EXPANSION (FIXED AT 13 PERCENT IN JUNE) WAS EXCEEDED ONLY SLIGHTLY IF ACCOUNT TAKEN OF FACT THAT SEVERAL CATEGORIES OF CREDITS GRANTED BY BANKS ARE EXEMPT FROM RESTRICTIONS.

7. GOF GRAPPLES WITH ENERGY DEFICITS -

GOF INTENTIONS ON THE ENERGY FRONT ARE CURRENTLY

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PAGE 01 PARIS 22365 03 OF 03 202017Z

70

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R 201954Z SEP 74

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UNCLAS SECTION 03 OF 03 PARIS 22365

OBJECT OF SOME CONFUSION FOLLOWING ANNOUNCEMENT OF
OPEC PRICE INCREASES. PLANS FOR WINTER RATIONING
OF OIL FOR SPACE HEATING ANNOUNCED TWO WEEKS AGO,
BUT EXPECTED ECONOMIES OF ABOUT 1.3 BILLION FRANCS
NOW COMPLETELY NEGATED BY ESTIMATED 2 BILLION FRANC
JUMP IN OIL IMPORT BILL.

ACCORDING TO FUEL ALLOCATION PLAN HEATING FUEL
SUPPLIES TO BE LOWERED 10 TO 15 PERCENT, WITH CON-
SUMERS TO RECEIVE 20 PERCENT LESS THAN FUEL USED
LAST YEAR. DISTRIBUTORS WILL THUS HAVE 5 TO 10 PER-
CENT DISCRETIONARY MARGIN FOR NEW CUSTOMERS AND SPECIAL
CASES. RESTRICTIONS ON INDUSTRIAL CONSUMPTION OF
HEAVY FUELS WERE NOT ENVISAGED ON ACCOUNT OF EVENTUAL
REPERCUSSIONS FOR EMPLOYMENT.

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PAGE 02 PARIS 22365 03 OF 03 202017Z

GIVEN INDUSTRY'S SHARE OF PETROLEUM CONSUMPTION
(ROUGHLY 49 PERCENT OF TOTAL, COMPARED TO 37 PERCENT
FOR HEATING AND 14 PERCENT FOR MOTOR FUEL) PLANNED
10-15 PERCENT CUT IN HEATING OIL USE TRANSPORT TO
ABOUT 5 PERCENT OF TOTAL PETROLEUM CONSUMPTION AND
THUS CANNOT BY ITSELF SOLVE PROBLEM. GOF NOW TALKS

OF POSSIBILITY OF GASOLINE RATIONING, BUT THIS MEASURE
WOULD PROBABLY NOT YIELD MUCH ADDITIONAL SAVINGS.
FINANCE MINISTER FOURCADE SAID SEPTEMBER 19 THAT
RETURN TO PAYMENTS EQUILIBRIUM WOULD REQUIRE 5 BILLION
FRANCS REDUCTION IN 1975 OIL IMPORT BILL -- DOWN TO 40
BILLION FRANCS FROM CURRENT PROJECTED 45 BILLION FOR
1974. THIS WOULD INVOLVE ABOUT 11 PERCENT REDUCTION
IN VALUE TERMS AND (GIVEN PRICE INCREASES) EVEN GREATER
REDUCTION IN VOLUME. GOF THUS APPEARS SERIOUS ABOUT
REDRESSING ENERGY DEFICIT, BUT AGONIZING OVER TRADE-
OFFS INVOLVED.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

21209 PRESS CONFERENCE OF FRENCH SEPTEMBER 9, 1974
FINANCE MINISTER ON WEEKEND
MEETING OF FINANCE MINISTERS

21639 U.S. GOLD CLAUSE JOINT SEPTEMBER 12, 1974
RESOLUTION

21679 INDOCHINA DONORS' MEETING SEPTEMBER 12, 1974

21854 ECONOMICS AND FINANCE SEPTEMBER 16, 1974
MINISTER ON CURRENT INTER-
NATIONAL ECONOMIC AND
FINANCIAL ISSUES

AIRGRAMS

A-490 FRENCH RESERVES IN AUGUST SEPTEMBER 13, 1974
1974
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PARIS 22365 03 OF 03 202017Z

A-491 FRENCH FOREIGN EXCHANGE SEPTEMBER 13, 1974
HOLDINGS

A-493 FRENCH EXPORT CREDITS TO SEPTEMBER 16, 1974
EASTERN EUROPE

A-500 FRENCH FOREIGN EXCHANGE SEPTEMBER 20, 1974
IRWIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, GOVERNMENT BUDGET, INFLATION, UNEMPLOYMENT, DATA, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PARIS22365
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740265-0388
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740927/aaaaawyt.tel
Line Count: 380
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: PARIS 21210, SEPTEMBER 9, 1974
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUL 2002 by maustmc>; APPROVED <03 FEB 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EFIN, EGEN, FR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005